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EU-27 GRAIN

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Report Highlights:
Following the record grains crop in MY 2008/9, this year's total EU grain crop is currently forecast to decline 23 MMT to 290 MMT. A combination of the late 2008 harvest and the early onset of winter narrowed the window for the planting of winter crops. Also, the tighter economic conditions and reduced commodity prices in the latter part of last year reduced EU farmer's incentives to plant grains. While wet weather in the east of the EU in March delayed some of the spring plantings, these are generally reported to be proceeding well across the EU but, when combined with the winter crop, the total grain area is forecast to decline over 3 per cent. Yields are also expected to be down; some farmers – particularly in the New Member States – are reported to have used cheaper, less elite and lower yielding, seed and more heavily utilized farm-saved seed. With winterkill limited though, early hopes are high for a good quality crop in MY 2009/10. Feed grain consumption, up in MY 2008/09 when the plentiful availability of affordable grain supplies saw it being substituted for an increasing proportion of non-grain feed ingredients, is forecast to fall in MY 2009/10 as the reduction in animal numbers seen this season continues into next. Industrial usage in the bioethanol sector is forecast, as it did in MY 2008/09, to lead to a further rise in Food, Seed & Industrial usage in MY 2009/10. Finally, the very large rise in grain stocks expected in MY 2008/09 despite good export progress, combined with an expectation of increased export competition in third country markets next season, means the EU is forecast to continue to carry large ending stocks at the close of MY 2009/10.

Commodities:
Select

Author Defined:

Introduction

This report presents the first outlook for grain and feed, and Production, Supply and Demand (PS&D) forecasts for the Marketing Year (MY) 2009/10. Unless stated otherwise, data in this report is based on the views of Foreign Agricultural Service analysts in the EU and is not official USDA data.

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HA = Hectares
MT = Metric Tonne
MY = Marketing Year. Post and USDA official data both follow the EU local marketing year of July to June except for corn which follows an October to September calendar.
TY = July to June for wheat and October to September for coarse grains

Executive Summary

Total Grains EU-27	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	Annual Data Displayed		New Post Data	Annual Data Displayed		New Post Data	Annual Data Displayed		Jan Data
Area Harvested	56,666	56,648	56,799	60,461	59,925	60,311	0	0	58,285
Beginning Stocks	29,156	31,288	29,156	23,442	27,237	29,079	0	0	47,808
Production	255,966	256,137	256,532	310,377	309,000	312,865	0	0	289,675
MY Imports	27,219	26,695	27,219	9,155	8,205	10,315	0	0	8,945
TY Imports	26,834	26,695	26,834	8,955	8,205	10,315	0	0	8,945
TY Imp. from U.S.	5,714	0	5,714	0	0	0	0	0	0
Total Supply	312,341	314,120	312,907	342,974	344,442	352,259	0	0	346,428
MY Exports	16,963	16,823	16,963	27,400	29,505	29,275	0	0	24,335
TY Exports	16,951	16,823	16,951	27,400	29,505	29,275	0	0	24,335
Feed Consumption	169,736	168,230	167,260	171,150	173,750	170,321	0	0	168,220
FSI Consumption	102,200	101,830	99,605	106,200	105,200	104,855	0	0	106,405
Total Consumption	271,936	270,060	266,865	277,350	278,950	275,176	0	0	274,625
Ending Stocks	23,442	27,237	29,079	38,224	35,987	47,808	0	0	47,468
Total Distribution	312,341	314,120	312,907	342,974	344,442	352,259	0	0	346,428
Yield	5	5	4.5165	5	5	5.1875	0.	0.	4.9700

In 2009, European farmers are expecting another sizeable grain harvest, currently estimated at 290 MMT. Albeit 23 MMT down on the record crop in 2008 (itself revised further upwards due to updated figures from a number of the smaller New Member States) this is still over 15 MMT more than forecast domestic grain consumption in MY 2009/10. The area planted to grains this marketing year has been reduced by over three per cent. The reasons are numerous: in the UK and France the late completion of the 2008 harvest narrowed the planting window; the early onset of wet winter weather in December in a number of Member States also curtailed winter plantings; March rains in the east of the EU, including in Hungary and in the Czech Republic, slowed spring plantings; and across the EU farmers faced economic pressures, from higher input costs to lower expected returns (in many instances the costs of production are now exceeding prices), which reduced their incentives to plant grains - some substitution for the likes of pulses and protein crops is expected while some marginally productive fields are expected to remain fallow. The CAP Health Check, including the abolition of set-aside and changes to decoupled support arrangements and to intervention, is not reported to have been a major factor. The exception is the rye area which is reported down due to the removal of the price support previously provided by intervention.

Over winter conditions in most parts of the EU have been good with hardly any winterkill reported and soil moisture levels at the beginning of the vegetative period in the spring of 2009 bode well. The unusually long lasting 2008/9 winter may put some limit on the

yields but of more significance for yields are the reports that farmers in a number of the poorer Member States (where farmers are finding it more difficult to obtain credit) including Bulgaria, Romania, Hungary and the Czech Republic have planted a larger proportion of cheaper, less elite and so lower yielding, grain varieties and more heavily utilized farm-saved seed, both approaches to save costs. While the significantly lower agricultural commodity prices compared to a year ago are reducing the use of fertilizers in these same New Member States, in the likes of the Iberian Peninsula the reduction is being partly countered by improved lake water availability in that region and the fallowing of marginal land. Elsewhere in the EU, fertilizer input is not reported to be heavily reduced. Market sources suggest that many farmers bought ample supplies back in 2008 due to concerns over the escalating oil prices at the time.

EU domestic use of grain is estimated marginally lower at 274.6 MMT in MY 2009/10. However, this decline masks another year-on-year increase in Food, Seed & Industrial (FSI) use of grain, in part due to increased grain use for renewable transportation fuels. To explain, with EU grain prices halving over the course of 2008, grain became significantly more competitive in feeding. Although EU livestock numbers are in decline, the proportion of grain used in the feed mix has increased at the expense of non-grain feed ingredients. Additionally, it is reported that farmers have been increasingly blending their own feed mixes this season instead of purchasing compound feeds bringing total expected feed use of grains to 170.3 MMT. For MY 2009/10, a 2 MMT decline in feed use is forecast as the falling animal numbers in the EU, particularly in the hog sector, start to be felt. That said, some support is expected to come from a switch from soya meal to grains as the latter are forecast to be more price competitive against beans. FSI use, up 5.25 MMT in MY 2008/9, is forecast to rise a further 1.55 MMT to 106.4 MMT, increased demand in the bioethanol sector outweighing an expected decline in French starch manufacture. In the UK, September is expected to see the opening of a bioethanol facility that will use 1.1 MMT of wheat per annum. A similarly sized venture, also in the UK, is currently expected to open in mid to late 2010 and so further increases in EU FSI consumption should be expected in the future.

MY 2008/09 is expected to see a significant increase in grain ending stocks, by almost 19 MMT to 47.8 MMT, despite drastically increased exports of competitively priced baking wheat to North African, Near and Middle East destinations. The record production is a major factor but so is reluctance on the part of farmers to sell at current prices. In the Iberian Peninsula, third country imports, mainly Ukrainian and Russian origin wheat and barley, are displacing domestic and imported intra-EU supplies. EU intervention stocks, which were effectively empty a year ago, are expected to rise this season. Corn stocks are fully expected to reach their cap of 700,000 MT and barley intervention is also expected to be heavily utilized by the trade. The expectation of increased export competition in third

country markets next season, and the shadow of a stronger Euro against the dollar, means the EU is forecast to continue to carry large ending stocks at the close of MY 2009/10 despite the reduced production forecast.

Wheat

Wheat EU-27	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Harvested	24,655	24,645	24,777	26,772	26,400	26,934			25,800
Beginning Stocks	14,025	16,300	14,025	10,401	14,000	16,112			26,332
Production	119,442	119,485	120,212	150,261	151,000	151,720			137,700
MY Imports	6,942	6,932	6,942	6,500	5,000	6,000			5,000
TY Imports	6,942	6,932	6,942	6,500	5,000	6,000			5,000
TY Imp. from U.S.	1,732	0	1,732	0	0				
Total Supply	140,409	142,717	141,179	167,162	170,000	173,832			169,032
MY Exports	12,272	12,228	12,272	21,000	24,000	23,000			18,000
TY Exports	12,272	12,228	12,272	21,000	24,000	23,000			18,000
Feed Consumption	52,436	51,489	48,695	60,000	62,000	58,000			58,000
FSI Consumption	65,300	65,000	64,100	67,500	66,500	66,500			67,500
Total Consumption	117,736	116,489	112,795	127,500	128,500	124,500			125,500
Ending Stocks	10,401	14,000	16,112	18,662	17,500	26,332			25,532
Total Distribution	140,409	142,717	141,179	167,162	170,000	173,832			169,032
Yield	5.	5.	4.8518	6.	6.	5.633			5.3372

EU wheat production is forecast to fall to 137.7 MMT in MY 2009/10, a decline of 14 MMT on the record harvest achieved in 2008. The decline can be attributed to both a reduced area and a decline in yield expectations. With regards area, the late completion of the 2008 harvest in many countries delayed plantings for the new crop, most notably in the UK. Additionally, the decline in wheat prices and tight economic conditions as compared with a year earlier reduced the incentive to plant in a number of the western Member States; Italy in particular reports a 25 per cent (29 per cent for durum wheat and 15 per cent for soft wheat) year-on-year reduction in wheat plantings as a consequence of the weather and financial pressures with the crop forecast to fall by as much as 30 per cent. These two factors more than outweighed an increase in the wheat area in the eastern part of the EU - in countries such as Poland, Hungary and Bulgaria - and the total EU wheat area is estimated to be down 1.1 million hectares, over 4 per cent, on the previous season.

The early onset of winter in the EU in 2008 and particularly wet weather further curtailed winter wheat plantings. However, over winter conditions have generally been reported as good with little or no damage to the crop and hopes of a good quality crop remain strong. Yields on the other hand, are expected to be down. While this will be partly due to reduced fertilizer usage in some Member States, particularly the New Members - many farmers elsewhere in the EU are reported to have bought their fertilizer supplies well in advance last year due to concerns over the impact of oil prices on the availability of affordable supplies later in the season. The exception is Spain where consumption of nitrogen fertilizer, which had been stable for a number of years, dropped by 25 per cent in the last quarter of 2008. However, current expectations are that this will largely be negated by improved water availability in the region (lake stores for irrigation are much recovered on a year ago) and the fact that less fertile land has been left fallow. Another negative factor for yields, again mainly in the New Member States, are the reports of farmers switching to less elite, and hence less expensive and lower yielding, seed and more heavily utilizing farm-saved seed.

Total EU wheat consumption is forecast to increase 1 MMT in MY 2009/10 to 125.5 MMT. This is a further increase on the substantial rise in 2008/09 when EU wheat consumption is estimated to have risen nearly 12 MMT. The vast majority of this increased wheat usage in MY 2008/9 was as feed. This season has seen wheat use in feed supported by the very large crop, cheap domestic supplies and further buoyed by low-priced imports of feed wheat from the Black Sea region. Not only has this displaced non-grain feed ingredients but wheat is also proving price competitive against corn. Further, there is speculation that as the season comes to a close, wheat may be increasingly substituted for barley in feed, the trade choosing to put the latter into intervention. Feed use of wheat in the out year is forecast to remain unchanged from this high level.

On the Food, Seed and Industrial (FSI) side, use of wheat is trending upward, largely due to increased wheat use for processing into ethanol. Indeed, in MY 2009/10 the rise of 1 MMT is forecast to be entirely due to increased use in the biofuels sector. In particular, a wheat-based bioethanol plant is expected to open in the UK in November capable of processing 1.1 MMT of wheat per year. This is expected to be followed by a similarly sized venture, also in the UK, in late 2010. Sweden is also expected to see strong increases in wheat demand for bioethanol. As such, total EU FSI usage of wheat is forecast to continue to trend upwards for the foreseeable future.

MY 2008/09 wheat imports are estimated to amount to 6 MMT with Ukraine being the largest supplier of feed wheat into Italy and Spain, the leading EU importers. In Spain, it is reported that grain companies are substituting domestically produced and intra-EU imports of grains for imported feed wheat from Ukraine. An increase in EU imports from

Australia this season has been partly offset by a decrease in North American imports. The import volume is forecast down slightly in MY 2009/10 at 5 MMT.

EU wheat exports are now forecast to reach 23 MMT in MY 2008/09. Although lower than previously forecast, this would still be a record volume. One of the leading countries of destination for EU baking wheat this season has been Iran, now expected to be the biggest importer of global wheat supplies this season, ahead of Egypt. This season has seen EU exporters benefit from the fact that the wheat quality has very closely matched the desired quality standards set by traditional importing countries – this has particularly been the case for French wheat to Egypt. Further support has come from the weaker value of the Euro on international currency markets earlier this season.

Despite the significant domestic consumption and expectation of a large final export number, the record wheat harvest in MY 2008/09 means that wheat carryover stocks are expected to rise substantially this year, from 16.1 MMT to 26.3 MMT. These stocks are likely to be held predominantly in private storage - only a small volume has been offered to intervention so far. Seemingly the trade is speculating that there will be a prolonged period of strong demand for wheat on the global market with key exporters, Germany and France, accounting for almost half of the EU's wheat ending stocks. That said, with growing conditions for exportable supplies of grains in the Black Sea currently evaluated as favorable, US and Australian export availability forecast to rise, import demand in North Africa, Pakistan and Iran all forecast to fall from their current high levels, and a strengthening Euro casting a shadow over future exports, export opportunities for EU wheat seem to be somewhat restricted in MY 2009/10 compared to the current MY. As such, they are currently forecast to reach 18 MMT resulting in no noticeable reduction in ending stocks.

Barley

Barley EU-27	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Harvested	13,824	13,793	13,770	14,674	14,500	14,563			14,300
Beginning Stocks	5,799	5,414	5,799	5,713	5,100	5,196			10,024
Production	57,732	57,933	57,555	65,465	64,000	65,578			64,200
MY Imports	339	339	339	200	150	250			150
TY Imports	519	339	519	200	150	250			150
TY Imp. from U.S.	2	0	2	0	0	0			0

Total Supply	63,870	63,686	63,693	71,378	69,250	71,024			74,374
MY Exports	3,857	3,857	3,857	4,000	4,500	4,000			5,000
TY Exports	3,888	3,857	3,888	4,000	4,500	4,000			5,000
Feed Consumption	37,800	38,229	38,640	40,500	40,000	40,500			41,000
FSI Consumption	16,500	16,500	16,000	17,000	17,000	16,500			16,500
Total Consumption	54,300	54,729	54,640	57,500	57,000	57,000			57,500
Ending Stocks	5,713	5,100	5,196	9,878	7,750	10,024			11,874
Total Distribution	63,870	63,686	63,693	71,378	69,250	71,024			74,374
Yield	4.	4.	4.1797	4.	4.	4.5031			4.4895

The EU barley crop in MY 2009/10 is currently forecast marginally lower at 64.2 MMT. As compared to wheat, a larger proportion of the EU barley crop is spring sown. As such, the poor weather in the latter part of 2008 and tight planting window for winter crops is expected to have had less of an impact on the barley crop. Better returns on barley in MY 2008/09, and increased availability of land following the reduced winter wheat plantings, also encouraged spring plantings. That said, standing water followed by wet weather in March has slowed spring plantings in the likes of Hungary, the Czech Republic and Austria. The exception has been in the west, the UK and France, where the driest March for a number of years has encouraged spring cropping and improved crop development. Another influencing factor is the current low price for malting barley, itself a victim of the current global economic situation, which has discouraged farmers from expanding their malting barley area.

Total EU barley consumption is expected to be up 2.4 MMT this season and is forecast to rise a further 500,000 MT in MY 2009/10 to reach 57.5 MMT. Most of these increases are in feed use, a direct consequence of the increased availability. FSI use of barley is forecast to stagnate. Barley is not a preferred grain in ethanol production, and is only considered if it becomes price competitive against other grains, unlikely given the price support afforded the grain by intervention.

MY 2008/09 EU barley exports are estimated to remain little unchanged at 4 MMT. By the end of March 2008, EU exporters had taken exports licenses for 3.1 MMT, 10 per cent less than during the same period in MY 2007/08, but the pace of exports remains comparatively strong. That said, the EU - particularly Germany - has faced stiff competition this season from Ukraine and Russia into the likes of traditional markets such as Saudi Arabia. MY 2009/10 exports are currently forecast to reach 5 MMT. A number of market commentators are speculating as to whether the EU will reintroduce export restitutions.

By the end of MY 2008/09 carry over stocks are expected to have doubled on a year earlier, exceeding 10 MMT, with a significant tonnage being offered to intervention. Since

barley and wheat receive the same intervention price it is more economic to use the grains with higher feeding value for animal production and offer the low-value grains into intervention. With EU grain intervention closing on May 31, EU officials are reportedly bracing themselves for a surge of offers in the coming weeks. Forecasts of ample world supplies of barley in MY 2009/10 mean that the ending stocks are forecast to rise further next season despite slightly increased exports. That said, export opportunities and the stock situation will hinge on the size and quality of the various barley crops around the world.

Corn

Corn EU-27	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Oct 2007			Market Year Begin: Oct 2008			Market Year Begin: Oct 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Harvested	8,402	8,396	8,439	8,957	8,800	8,876			8,680
Beginning Stocks	7,382	7,382	7,382	4,973	4,882	4,973			7,400
Production	47,666	47,500	47,506	61,357	60,000	62,380			56,900
MY Imports	14,016	13,500	14,016	2,000	2,500	3,500			3,500
TY Imports	14,016	13,500	14,016	2,000	2,500	3,500			3,500
TY Imp. from U.S.	144	0	144	0	0	0			0
Total Supply	69,064	68,382	68,904	68,330	67,382	70,853			67,800
MY Exports	591	500	591	2,000	500	2,000			1,000
TY Exports	591	500	591	2,000	500	2,000			1,000
Feed Consumption	50,500	50,000	50,590	46,500	47,000	47,203			45,250
FSI Consumption	13,000	13,000	12,750	14,000	14,000	14,250			14,750
Total Consumption	63,500	63,000	63,340	60,500	61,000	61,453			60,000
Ending Stocks	4,973	4,882	4,973	5,830	5,882	7,400			6,800
Total Distribution	69,064	68,382	68,904	68,330	67,382	70,853			67,800
Yield	6.	6.	5.6293	7.	7.	7.0279			6.5553

EU corn production is currently forecast to fall to 56.9 MMT in MY 2009/10, 4.5 MMT below this season. Both the corn area and yields are forecast lower. The reduced area is largely accounted for by declines in France, Italy and Bulgaria. While sunflowers are reported to have replaced some of the corn area in Southern France, economic concerns are reported as the main factor in the other two. With regards yield, the high yield of the 2008 harvest is not expected to be repeated.

Feed use of corn in MY 2009/10 is forecast to be over 5 MMT below that of two years earlier. This is due to two main factors: firstly, comparatively low-priced corn from Brazil

is no longer available in the EU market; secondly, corn is facing stiff competition from cheaper supplies of other domestic grains, notably wheat and barley, which have partially replaced corn in feed rations in MY 2008/9. A similar picture is forecast for MY 2009/10. Demand for corn in the starch sector remains steady while corn use in biofuels and biogas processing plants is growing slowly but steadily.

Imports of corn in MY 2008/09 and MY 2009/10 are put at 3.5 MMT. This contrasts strongly with MY 2007/08 when this number reached 14 MMT, largely made up of the aforementioned Brazilian supplies. The current stability in global corn prices is expected to have advantaged EU corn exports this season and, despite stiff competition from Black Sea origins, they are expected to more than triple to 2 MMT this season. MY 2009/10 is currently forecast to see EU corn exports reach 1MMT.

Ending stocks of corn are expected to rise by almost 2.5 MMT in MY 2008/09. The vast majority of these stocks are expected to be held in private hands since EU intervention stocks are capped at 700,000 MT. Little change in these stocks is forecast for MY 2009/10.

Rye

Rye EU-27	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Harvested	2,566	2,579	2,578	2,748	2,750	2,770			2,600
Beginning Stocks	616	575	616	458	425	1,046			1,682
Production	7,620	7,625	7,685	9,179	9,100	9,146			8,600
MY Imports	98	100	98	50	50	60			40
TY Imports	88	100	88	50	50	60			40
TY Imp. from U.S.	3	0	3	0	0	0			0
Total Supply	8,334	8,300	8,399	9,687	9,575	10,252			10,322
MY Exports	76	75	76	250	350	70			150
TY Exports	59	75	59	250	350	70			150
Feed Consumption	3,300	3,300	3,177	3,200	3,700	3,750			4,000
FSI Consumption	4,500	4,500	4,100	4,700	4,700	4,750			4,850
Total Consumption	7,800	7,800	7,277	7,900	8,400	8,500			8,850
Ending Stocks	458	425	1,046	1,537	825	1,682			1,322
Total Distribution	8,334	8,300	8,399	9,687	9,575	10,252			10,322
Yield	3.	3.	2.981	3.	3.	3.3018			3.3077

EU production in MY 2009/10 is forecast down 550,000 MT at 8.6 MMT. This is a direct consequence of a 6 per cent reduction in the estimated planted area following a return to traditional price levels – as of this harvest, rye is no longer supported by an EU intervention price system. Rye is predominantly planted to less fertile sandy regions in Germany and Poland. Its yield potential as compared to wheat and barley is limited.

At 4.85 MMT, demand for rye in the FSI sector in MY 2009/10 is forecast to rise slightly over the level seen this season. Within this total, it is demand for rye in the biofuel sector which is behind this rise - as rye prices drop below the EU intervention price for wheat and barley its appeal increases - while demand by the food industry is stable. As for the use of rye as a feed grain, this also strongly depends on its price relation to wheat and barley. As soon as the price is low enough demand by feed compounders rises. While it is not the most favored feed ingredient, animal nutritionists do argue that its feeding value is comparable to that of barley. Feed use of rye in MY 2009/10 is currently forecast to rise marginally to 4 MMT.

Sorghum

Sorghum EU-27	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Harvested	93	96	93	98	100	95			105
Beginning Stocks	23	20	23	249	300	100			50
Production	522	548	523	521	500	545			575
MY Imports	5,812	5,812	5,812	400	500	500			250
TY Imports	5,267	5,812	5,267	200	500	200			250
TY Imp. from U.S.	3,833	0	3,833	0	0	0			0
Total Supply	6,357	6,380	6,358	1,170	1,300	1,145			875
MY Exports	8	4	8	0	5	5			5
TY Exports	8	4	8	0	5	5			5
Feed Consumption	6,000	5,976	6,245	1,000	1,100	1,085			825
FSI Consumption	100	100	5	100	100	5			5
Total Consumption	6,100	6,076	6,250	1,100	1,200	1,090			830
Ending Stocks	249	300	100	70	95	50			40
Total Distribution	6,357	6,380	6,358	1,170	1,300	1,145			875
Yield	6.	6.	5.6237	5.	5.	5.7368			5.4762

The tight supplies of feed grains in MY 2007/8 saw European importers - mainly in Spain, the Benelux and France – dramatically increase their purchases of sorghum to nearly 6

MMT. Of this total, the vast majority was of US origin with most of the remainder coming from Argentina. This unusual import situation, now ended, is unlikely to be repeated and sorghum imports are forecast to reach a mere 250,000 MT in MY 2009/10.

Oats

Oats EU-27	2007			2008			2009		
	2007/2008			2008/2009			2009/2010		
	Market Year Begin: Jul 2007			Market Year Begin: Jul 2008			Market Year Begin: Jul 2009		
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Harvested	2,983	2,992	2,970	3,001	3,050	2,970			2,900
Beginning Stocks	804	804	804	780	807	624			870
Production	8,823	8,830	8,618	8,952	8,900	8,950			8,500
MY Imports	12	12	12	5	5	5			5
TY Imports	2	12	2	5	5	5			5
TY Imp. from U.S.	0	0	0	0	0	0			0
Total Supply	9,639	9,646	9,434	9,737	9,712	9,579			9,375
MY Exports	159	159	159	150	150	200			180
TY Exports	133	159	133	150	150	200			180
Feed Consumption	6,800	6,800	6,901	6,850	6,850	6,709			6,645
FSI Consumption	1,900	1,880	1,750	1,900	1,900	1,800			1,750
Total Consumption	8,700	8,680	8,651	8,750	8,750	8,509			8,395
Ending Stocks	780	807	624	837	812	870			800
Total Distribution	9,639	9,646	9,434	9,737	9,712	9,579			9,375
Yield	3.	3.	2.9017	3.	3.	3.0135			2.931

The leading producing countries for oats in the EU are Poland, Finland and Sweden. Production, which increased 300,000 MT to 8.95 MMT in MY 2008/9, is forecast to fall back to 8.5 MMT in MY 2009/10. The importance of oats is diminishing in EU grain production although the organic industry still has an interest in this grain for crop rotation purposes and growing demand for food and feed use. Non-organic farmers are gradually reducing their oats area. Trade in oats is almost exclusively intra-EU with the minor export volume to non-EU countries originating from Finland and Sweden. FSI use remains stable year-on-year with any fluctuations in production being felt directly in feed use.

Mixed Grain

Mixed Grain EU-27	2007	2008	2009
	2007/2008	2008/2009	2009/2010
	Market Year Begin: Jul	Market Year Begin: Jul	Market Year Begin: Jul 2009

	2007			2008					
	Annual Data Displayed		New Post	Annual Data Displayed		New Post	Annual Data Displayed		Jan
			Data			Data			Data
Area Harvested	4,143	4,147	4,172	4,211	4,175	4,103			3,900
Beginning Stocks	507	507	507	868	1,023	1,028			1,450
Production	14,161	14,216	14,433	14,642	14,500	14,546			13,200
MY Imports	0	0	0	0	0	0			0
TY Imports	0	0	0	0	0	0			0
TY Imp. from U.S.	0	0	0	0	0	0			0
Total Supply	14,668	14,723	14,940	15,510	15,523	15,574			14,650
MY Exports	0	0	0	0	0	0			0
TY Exports	0	0	0	0	0	0			0
Feed Consumption	12,900	12,850	13,012	13,100	13,100	13,074			12,500
FSI Consumption	900	850	900	1,000	1,000	1,050			1,050
Total Consumption	13,800	13,700	13,912	14,100	14,100	14,124			13,550
Ending Stocks	868	1,023	1,028	1,410	1,423	1,450			1,100
Total Distribution	14,668	14,723	14,940	15,510	15,523	15,574			14,650
Yield	3.	3.	3.4595	3.	3.	3.5452			3.3846

Mixed grain numbers include triticale and the threshed, dry seeds of wheat, barley, corn, oats, rye and sorghum grown and harvested in the same field. The main producer is Poland, followed by Germany and France. MY 2009/10 is forecast to see production fall 1.35 MMT to 13.2 MMT with most of this reduction being in Poland. Most of the mixed grain production is directly consumed on the producing farm although there is limited intra-EU trade in triticale. Some triticale is also used in ethanol and biogas production - like rye, its price is not supported by an intervention level meaning this can drop well below those of barley and wheat.

Policy

The Common Agricultural Policy (CAP) Health Check was adopted at the Agriculture Council of January 19, 2009. The principal elements of relevance to the grain sector are:

Abolition of set-aside

The requirement for grain and other arable farmers to leave 10 percent of their land fallow was abolished with effect from MY 2008/09. Note that the set-aside mechanism has now been abolished as opposed to the rate of set-aside being set at 0 percent. This means that set-aside is no longer to be considered as a supply-side management tool. In practice, the area of land liberated from the set-aside obligations is likely to amount to between 1.2 and

1.6 million ha (given a theoretical available area of some 4 million ha, a maximum of 40 percent of which could return to crops with the remainder being marginal land).

Intervention mechanisms

Intervention is to be set at 0 for durum wheat (with effect from MY 2009/10), rice (with effect from MY 2009/10), and barley and sorghum (with effect from MY 2010/11). For soft wheat, intervention purchases will be possible during the intervention period from November 1 to May 31 at a price of €101.31 per MT up to 3 million MT. Beyond that, intervention buying-in will be made via bids under a tender system – more precisely, intervention at a fixed price will be replaced by purchases through a bidding process with the European Commission deciding on the quantity available for purchase as a function of the prices offered by operators (with effect from MY 2010/11). Monthly increments to the intervention price (aimed at ensuring a steady flow of supplies onto the market throughout the season, and compensating for additional costs incurred including storage) will also cease from July 2010. Minimum quality standards still apply.

Although not part of the Health Check exercise, it should be recalled that intervention for corn (maize) is being phased out from MY 2009/10 onwards (again via the setting of a 0 threshold), having been subject to a ceiling of 1.5 million MT in MY 2007/08 and a subsequent ceiling of 700,000 MT in MY 2008/09.

Although thresholds are to be set at 0 for durum wheat, rice, barley and sorghum, the intervention mechanism for these products will continue to be maintained as a market management instrument as is the case for corn, albeit under an effectively compulsory bid and tender system.

Decoupling of support

Payments to farmers for arable crops, durum wheat and hops will be decoupled on January 1, 2010. Decoupling of payment for the processing of dried fodder will take place on April 1, 2012 and in the same year for protein crops. The Commission will draw up a report by December 31, 2012 on the progress of the Health Check particularly with regards to progress towards decoupling.

Additional modulation

Before the CAP 'Health Check', all farmers receiving in excess of €5,000 in direct aid ('Pillar 1') had their payments reduced by 5 percent, and the money transferred to the Rural Development budget ('Pillar 2'). This rate is to be increased by 2 percent in 2009, then by a further 1 percent each year from 2010 to 2012, thus reaching 10 percent being shifted from Pillar 1 to Pillar 2 in 2012.

Additionally, a supplementary progressive modulation impacting large holdings that receive over €300,000 in direct aid is to be introduced. The rate of progressive modulation is set at 4 percent over and above the increases applicable in 2009 (yielding total increases of [2 + 4 = 6] percent in 2009, [3 + 4 = 7] percent in 2010, [4 + 4 = 8] percent in 2011, and [5 + 4 = 9] percent in 2012).

As the new Member States are scheduled to receive 90 percent of the direct payment level in 2012, they will not be impacted by the basic modulation scheme. It seems logical to assume that holdings in those Member States which receive in excess of €300,000 in direct aid will follow the general rule of being subject to the 4 percent rate associated with progressive modulation from 2012.

Member States are requested to use the funds resulting from the newly modulated amounts to adjust their Rural Development programs from 2010 to address:

- climate change mitigation,
- renewable energy,
- water management,
- biodiversity,
- innovation linked to these four areas

It is understood that Member States submit their proposals within the framework of established guidelines for Commission approval at its Rural Development Committee.

All newly modulated amounts will remain in the original Member State. Estimates suggest that the amount of funds moved from Pillar 1 (direct aid) to Pillar 2 (rural development) during the four year period will reach €3.24 billion (with only €150 million being derived from progressive modulation). This transferred money will be co-financed with the EU contribution amounting to 75 percent of the total and 90 percent in convergence regions where average GDP is lower.

Cross compliance

Aid to farmers is linked to the respect of environmental, animal welfare and food quality standards. Farmers who do not respect the rules face cuts in their support. A recent report from the Court of Auditors on this system of cross-compliance asserts that it:'*…is a vital element of the CAP…*' but concludes that it'*… is not effective as currently managed by the Commission and implemented by the Member States*'.

The Good Agricultural and Environmental Conditions (GAEC) standards are optional except where a Member State has defined for such standards a minimum for GAEC before January

1, 2009, or where rules addressing the standard are applied in the Member State in accordance with national provisions. The standards include:

- retention of landscape features (including hedges, ditches, trees in line…),
- standards for crops rotation,
- appropriate machinery use,
- minimum livestock stocking rates or/and appropriate regimes,
- establishment and/or retention of habitats,
- prohibition of the grubbing up of olive trees, and,
- maintenance of olive groves and vines in good vegetative condition.

The adjustments made to the GAEC Annex aimed at accommodating some of the environmental benefits accruing from compulsory set aside (including retention of landscape features, establishment of buffer strips along water courses…) are to be applied by January 1, 2010 at the latest. The new Member States face cross-compliance penalties on environmental standards by 2009, food quality standards by 2011 and on animal welfare from 2013 (or 2016 for Bulgaria and Romania).

The new rules delete from the list of Statutory Management Requirements (SMRs) certain items relating to the Wild Birds Directive and the Habitats Directive, and also rules on identification and registration of cattle (as these latter issues are covered by a separate SMR) with effect from 2010.

Article 68 (ex-Article 69) measures

Member States are to be given the following expanded and more flexible options for targeted Pillar 1 support through filtering off up to 10 percent of the Single Farm Payment (SFP) amounts in each Member States envelope:

- for environment, quality and promotion, now to include animal welfare (up to a ceiling of 3.5 percent of the national envelope),
- addressing specific disadvantages for dairy, beef and veal, sheep and goats and rice in economically and environmentally vulnerable areas, and also in 'economically vulnerable types of farming' (up to a ceiling of 3.5 percent of the national envelope),
- assisting areas subject to restructuring and development (to avoid abandonment of land),
- contributing to farmers' crop insurance premia (public funding contribution up to 65 percent of total, with EU funding limited to 75 percent of this amount), and,

- contributing to mutual funds to address animal and plant diseases (public funding contribution up to 65 percent of total, with EU funding limited to 75 percent of this amount - up to a ceiling of 3.5 percent of the national envelope).

The new Member States are eligible for the above following the full adoption of the SFP. Member States have three opportunities to take up this flexibility on their preferred option by August 2009, 2010 or 2011.

Other measures

Suspension of grain import duties applying to imports carried out on the basis of licenses from January to October 2008

Mariann Fischer Boel, Commissioner for Agriculture and Rural Development, announced on June 13, 2008, that the suspension of grain import duties that was initially introduced to apply to imports carried out on the basis of import licenses from 4 January until June 30, 2008, would remain in force for the next marketing year which will end on June 30, 2009. The list of tariffs covered by the continued suspension was extended to include millet and buckwheat. As such, the products covered with effect from the continuation of the duty suspension were:

CN Code	Description
Wheat and meslin other than durum wheat, other than seed	
1001 10	Durum wheat
1002 00 00	Rye
1003 00	Barley
1005 90 00	Maize (corn) other than seed
1007 00 90	Grain sorghum other than hybrids for sowing
1008	Buckwheat, millet and canary seed; other cereals

The measure was a reaction to the tight situation on the grains market and the resulting high price levels. At the same time, there are no export refunds on exports of grains.

The European Commission was empowered to restore duties before June 30, 2009, if market conditions were to make it appropriate to do so. Within this perspective, the Commission's Cereals Management Committee of October 16, 2008 agreed that falls in internal grains prices warranted the reintroduction of import duties for all grains.